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U S WEST, Inc.
1020 Nineteenth Street NW
Suite 700
Washington, DC 20036
202 429-3120
fax: 202 293-0561

Melissa Newman
Executive Director - Federal Regulatory

U S WEST

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

WRITTEN EX PARTE

April 8, 1999

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 - 12th Street, SW, TW-A325
Washington, DC 20554

RE: Petition of U S WEST Communications, Inc. for Forbearance from
Regulation as a Dominant Carrier for High Capacity Services in the
Phoenix, Arizona MSA, CC Docket No. 99-157

Petition of U S WEST Communications, Inc. for Forbearance from
Regulation as a Dominant Carrier for High Capacity Services in the
Seattle, Washington MSA, CC Docket No. 99-1

Dear Ms. Salas:

The attached material was sent to Ms. Tamara Preiss of the Competitive Pricing Division on April 7. In accordance with Commission Rule 1.1206(a)(1), an original and one copy of this letter and attachments are being filed with your office for inclusion in the public record.

Acknowledgment and date of receipt of this submission are requested. A duplicate of this letter is attached for this purpose.

Please call if you have any questions.

Respectfully submitted,

Melissa Newman

Attachments

cc: Ms. Tamara Preiss

U S WEST, Inc.
1020 Nineteenth Street NW
Suite 700
Washington, DC 20036
202 429-3120
fax: 202 293-0561



Melissa Newman
Executive Director - Federal Regulatory

EX PARTE

April 7, 1999

Tamara Preiss, Esquire
Competitive Pricing Division
Common Carrier Bureau
Federal Communications Commission
445 - 12th Street, SW, Room 5A207
Washington, DC 20554

Re: Petition of U S WEST Communications, Inc. for Forbearance
from Regulation as a Dominant Carrier for High Capacity Services
in the Phoenix, Arizona MSA, CC Docket No. 98-157

Petition of U S WEST Communications, Inc. for Forbearance from
Regulation as a Dominant Carrier for High Capacity Services in the
Seattle, Washington MSA, CC Docket No. 99-1

Dear Ms. Preiss:

Over the last couple of months various representatives of U S WEST have met with you and other Federal Communications Commission ("Commission") Staff to discuss U S WEST Communications, Inc.'s ("U S WEST") petitions requesting that the Commission forbear from regulating it as a dominant provider of high capacity (*i.e.*, DS1 and above) special access and dedicated transport for switched access services ("high capacity services") in the Phoenix, Arizona and Seattle, Washington MSAs filed on August 24, 1998 and December 30, 1998, respectively. In those meetings, several questions arose with respect to the petitions and the level of regulation that U S WEST faces in Arizona and Washington. U S WEST was asked to submit additional information in order to assist the Commission Staff in evaluating U S WEST's requests for regulatory relief. This letter is an effort to continue to respond to the Staff's information requests. Additional information will be submitted as soon as it is available.

I have enclosed the following attachments to assist the Staff in its review:

- Attachment 1 shows representative situations where U S WEST was able to participate in intrastate competitive bid situations due to the flexibility afforded by the states.
- Attachment 2 analyzes the revenue potential within 100 feet of the competitive fiber. This revenue potential is very attractive to competitors.
- Attachment 3 provides an assessment of the interstate pricing history for high capacity services. Because it had very low prices U S WEST made use of volume and term discounts in lieu of lowering rates or using zone pricing.
- Attachment 4 shows the Arizona and Washington UNE prices.
- Attachment 5 shows the intrastate pricing history for DS1 and DS3 services in Arizona and Washington.

Acknowledgment and date of receipt of this transmittal are requested. A duplicate of this letter is attached for this purpose.

Please call if you have any questions.

Sincerely,

Melissa Neuman

Attachments

**U S WEST
High Capacity Forbearance**

Attachment 1

Intrastate Contracting Capability

One of the major benefits for customers from the forbearance U S WEST is seeking in Phoenix and Seattle is the ability to make competitive bids and enter into contracts. Representative examples of opportunities in which U S WEST was able to participate and give the customer additional competitive choices were:

- | | |
|---------------|---|
| January 1997 | A State of Washington K-20 Educational Telecommunications Network bid for DS1 and DS3. Competitors included AT&T and MCI. |
| January 1999 | State of Oregon bid for Centrex, Analog Voice Grade and DS1. Competitors included AT&T and GTE. |
| November 1998 | State of Arizona (state agencies, hospitals and schools) bid for DSS, Analog, and DS1. Competitive bids were involved. |
| February 1999 | Utah Education Network requested bids for DS1, DS3, SST and SRS services. To compete with AT&T and MCI WorldCom, U S WEST proposed a service package that offered the customer more favorable terms and conditions. |

Intrastate contracts typically can be negotiated on an Individual Case Basis without filing associated tariffs. Margin requirements, strategic fit and competitive forces drive the pricing and packaging decisions. Intrastate agreements provide U S WEST the flexibility it needs to customize the bid to best meet the need of customer.

Revenue Potential within 100 Feet

In response to a question regarding the attraction for CLECs/CAPs to extend their service to customers within 100 feet of their fibers in the Phoenix MSA, the revenue potential is estimated to be \$30 million per year for the revenues from just the High Capacity services. If all of the potential revenues (e.g., local, toll, custom calling, etc.) are included the revenue raises to approximately \$50 million per year. These revenue estimates are not precise but do give an idea that the customers within 100 feet of the competitive fibers are a very attractive segment of the market.

When these revenue numbers are compared to the estimated cost to construct, which is \$28 million from the POWER model for locations within 100 feet; the situation is very attractive for the competitors to try to capture as much of this business as possible. The respective investment per revenue ratio is below unity (28/50). As explained in the Kahn and Tardiff paper attached to the Phoenix petition, ratios this small are much less than the overall ratio (3.2) which USWC has for Arizona and are very indicative of a very attractive market.

If the competitors are able to attract only a portion the business, say 50 % (\$15 million) of just the High Capacity services; the ratio is two (28/15), still less than the existing USWC ratio. Customers within 100 feet of the competitive fiber comprise a very attractive opportunity.

**U S WEST
High Capacity Forbearance**

Attachment 3

Interstate Prices

For the last few years the month-to-month prices for the various interstate DS1 and DS3 services have essentially remained flat. The headroom that was present in the early nineties has evaporated with the ever-increasing productivity factor. In the early stages of Price Caps, U S WEST had some of the lowest prices¹ for High Capacity services among the ILECs. Considering that competitors were pricing 15-to 20% below U S WEST (umbrella pricing), U S WEST did not see the benefit of lowering monthly prices further. During this time, U S WEST continued to tariff several volume and term plans which gave the benefit of lower prices in exchange for the commitment to purchase a number of services over a specific period of time. Volume and term discounts are as high as 20%. Through these volume and term plans, the net price for the services has declined.

Because volume and term plans are initially tariffed as new services under the Price Cap rules, they do not generate headroom. They are initially filed outside of Price Caps and then come under Price Caps at the Annual Filing following the year in which they were tariffed. When they come under Price Caps, they come in as new rate elements, not as reduced rates for existing rate elements. The customers receive the benefit of the volume and term prices but headroom is not generated under the Price Cap formulas.

U S WEST has made limited use of zone pricing, but found it to be of limited benefit in a competitive environment. Competition does not develop uniformly across a zone. Competitors target key customers and buildings that exhibit the greatest revenue potential. The current zone density pricing rules do not allow U S WEST to address specific customer needs for customized pricing or to respond to initiatives of competitors.

¹ Even after Price Caps had existed for awhile, USW still had some of the lowest rates. Of the eight largest ILECs (Ameritech, Bell Atlantic, Bell South, NYNEX, Pacific Bell, GTE and USW) a comparison of the rates from the 1997 Annual Filing shows:

<u>Rate element</u>	<u>Range of rates</u>	<u>USW rate</u>	<u>Average rate</u>
DS1 Chan Term	\$325 to \$115	\$115	\$185
DS1 Mux	\$418 to \$180	\$218	\$250
DS1 Fix Mileage 0-8	\$90 to \$35	\$87	\$64
DS1 Var Mileage 0-8	\$25 to \$5	\$14	\$17
DS1 CT, Mux, 1 Mile	\$704 to \$409	\$433	\$515
DS3 Chan Term	\$3080 to \$1150	\$1350	\$1969
DS3 Mux	\$950 to \$115	\$255	\$500
DS3 Fix Mileage 0-8	\$1500 to \$263	\$310	\$671
DS3 Var Mileage 0-8	\$200 to \$27	\$43	\$114
DS3 CT, Mux, 1 Mile	\$4685 to \$ 1834	\$1958	\$3255

U S WEST
High Capacity Forbearance

Attachment 4

State UNE Pricing

Arizona:

	Monthly Fixed	Monthly Per Mile	Non-Recurring
Unbundled Dedicated Interoffice Transport (UDIT)			
DS1 UDIT			\$302.91
DS1 0 to 8 Miles	\$35.98	\$0.65	
DS1 Over 8 to 25 Miles	\$35.99	\$0.94	
DS1 Over 25 to 50 Miles	\$36.00	\$1.75	
DS1 Over 50 Miles	\$36.00	\$1.59	
DS3 UDIT			\$302.91
DS3 0 to 8 Miles	\$243.17	\$13.32	
DS3 Over 8 to 25 Miles	\$246.15	\$15.90	
DS3 Over 25 to 50 Miles	\$250.66	\$22.91	
DS3 Over 50 Miles	\$249.26	\$22.49	
Entrance Facilities			
DS1	\$89.42		\$256.87
DS3	\$357.16		\$256.87
Multiplexing			
DS3 to DS1	\$196.85		\$2,281.44
DS1 to DS0	\$200.08		\$230.93
DS1/DS0 Low Side Channelization	\$6.08		\$231.47
Unbundled Network Elements (UNEs)			
4-Wire Non-Loaded Loop	\$22.90		varies by installation option
DS1 Capable Loop	\$89.42		varies by installation option

**U S WEST
High Capacity Forbearance**

Attachment 4

State UNE Pricing

Washington:

	Monthly Fixed	Monthly Per Mile	Non-Recurring
Unbundled Dedicated Interoffice Transport (UDIT)			
DS1 UDIT			under development
DS1 0 to 8 Miles	\$39.08	\$0.60	
DS1 Over 8 to 25 Miles	\$39.08	\$0.76	
DS1 Over 25 to 50 Miles	\$39.10	\$2.72	
DS1 Over 50 Miles	\$39.10	\$3.19	
 DS3 UDIT			
DS3 UDIT			under development
DS3 0 to 8 Miles	\$265.17	\$12.51	
DS3 Over 8 to 25 Miles	\$265.98	\$13.63	
DS3 Over 25 to 50 Miles	\$272.68	\$35.81	
DS3 Over 50 Miles	\$275.10	\$40.95	
 Multiplexing			
DS3 to DS1	\$200.70		\$304.78
DS1 to DS0	\$206.78		\$297.13
DS1/DS0 Low Side Channelization		under development	
 Unbundled Network Elements (UNEs)			
4-Wire Non-Loaded Loop	\$41.93		varies by installation option
DS1 Capable Loop	\$90.50		varies by installation option

**U S WEST
High Capacity Forbearance**

Attachment 5

State Pricing History

DS1 - Washington

	<u>4/1/89</u>	<u>6/25/1993 to Present</u>							
		<u>M-T-M</u>	<u>1-yr</u>	<u>2-yr</u>	<u>3-yr</u>	<u>4-yr</u>	<u>5-yr</u>	<u>6-yr</u>	<u>7-yr</u>
NAC or CT	199.95	150.00	150.00	141.00	133.95	126.90	119.85	109.98	108.58
Mileage:									
Fixed 0-8	269.45	73.86	73.86	73.86	73.86	73.86	73.86	73.86	73.86
Per Mi 0-8	11.00	2.04	2.04	2.04	2.04	2.04	2.04	2.04	2.04
Fixed 8-25	283.05	74.22	74.22	74.22	74.22	74.22	74.22	74.22	74.22
Per Mi 8-25	11.40	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.86
Fixed 25-50	305.95	74.81	74.81	74.81	74.81	74.81	74.81	74.81	74.81
Per Mi 25-50	12.00	2.65	2.65	2.65	2.65	2.65	2.65	2.65	2.65
Fixed >50	400.70	77.43	77.43	77.43	77.43	77.43	77.43	77.43	77.43
Per Mi >50	14.65	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.86
Term Discount									
1-Year	15%								
3-Years	20%								
5-Years	20%								

DS1 - Arizona

	<u>4/1/89</u>	<u>6/25/1993 to Present</u>							
		<u>M-T-M</u>	<u>1-yr</u>	<u>2-yr</u>	<u>3-yr</u>	<u>4-yr</u>	<u>5-yr</u>	<u>6-yr</u>	<u>7-yr</u>
NAC or CT	199.95	150.00	141.00	133.95	126.90	119.85	109.98	109.28	108.57
Mileage:									
Fixed 0-8	269.45	150.00	141.00	133.95	126.90	119.85	109.98	109.28	108.57
Per Mi 0-8	11.00	11.00	10.25	9.74	9.23	8.71	8.00	7.94	7.89
Fixed 8-25	283.05	200.00	179.50	170.53	161.55	152.58	140.01	139.11	138.22
Per Mi 8-25	11.40	15.00	14.10	13.40	12.69	11.99	11.00	10.93	10.86
Fixed 25-50	305.95	250.00	218.00	207.10	196.20	185.30	170.04	168.95	167.86
Per Mi 25-50	12.00	17.00	16.65	15.82	14.99	14.15	12.99	12.90	12.82
Fixed >50	400.70	250.00	218.00	207.10	196.20	185.30	170.04	168.95	167.86
Per Mi >50	14.65	17.00	16.65	15.82	14.99	14.15	12.99	12.90	12.82
Term Discount									
1-Year	15%								
3-Years	20%								
5-Years	20%								

DS3 - Arizona and Washington

	<u>4/1/89</u>	<u>6/25/1993 to Present</u>							
		<u>M-T-M</u>	<u>1-yr</u>	<u>2-yr</u>	<u>3-yr</u>	<u>4-yr</u>	<u>5-yr</u>	<u>6-yr</u>	<u>7-yr</u>
NAC(Cap of 1)	1,400.00	1,282.50	1,244.03	1,205.55	1,154.25	1,090.13	1,026.00	993.94	961.88
Mileage:									
Fixed 0-8	625.48	590.90	573.17	555.45	531.81	502.27	472.72	457.95	443.18
Per Mi 0-8	34.44	51.26	49.89	48.18	46.13	43.74	41.00	39.64	38.61
Fixed 8-25	628.56	593.75	575.94	558.13	534.38	504.69	475.00	460.16	445.31
Per Mi 8-25	36.92	35.15	34.10	33.04	31.46	29.88	28.12	27.24	26.36
Fixed 25-50	633.72	598.50	580.55	562.59	538.65	508.73	478.80	463.84	448.88
Per Mi 25-50	41.10	51.11	49.74	48.04	45.99	43.61	40.88	39.52	38.50
Fixed >50	655.14	619.40	600.82	582.24	557.46	526.49	495.52	480.04	464.55
Per Mi >50	58.41	57.92	56.37	54.44	52.12	49.42	46.33	44.79	43.63
Term Discount									
1-Year	15%								
3-Years	20%								
5-Years	20%								